

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Joseph K. Lumsden Bahweting Public School</b>	County <b>Chippewa</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/3/05</b>	Date Accountant Report Submitted to State: <b>10/3/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>16978 S. Riley Avenue</b>	City <b>Kincheloe</b>	State <b>MI</b>	ZIP <b>49788</b>
Accountant Signature 		Date <b>10/3/05</b>	

**Joseph K. Lumsden Bahweting Public School**

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**Financial Report  
with Supplemental Information**

**June 30, 2005**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**Independent Auditor's Report**

To the Members of the  
Administration and Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Joseph K. Lumsden Bahweting Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major governmental fund, and aggregate other funds of Joseph K. Lumsden Bahweting Public School as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005, on our consideration of Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the budgetary comparison schedule information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Joseph K. Lumsden Bahweting Public School basic financial statements. The accompanying information identified in the Table of Contents and other supplemental information are presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 3, 2005

## **Administration's Discussion and Analysis**

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Joseph K. Lumsden Bahweting Public School is a K-8 School located in Chippewa County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB #34, is intended to be the Joseph K. Lumsden Bahweting Public School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

U.S. generally accepted accounting principles (GAAP) according to GASB #34 requires the reporting of two types of financial statements: School-wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

For the most part, the fund financial statements are comparable to prior year's financial statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Project and the Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**School-wide Financial Statements:**

The School-wide financial statements are new reporting formats. These statements are maintained using the "full accrual" basis. They report all of the School's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the School are reported in the Statement of Net Assets of the School-wide financial statements.



**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2004 and 2005:

**Net Assets Summary**

	<u>2004</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 4,206,752	\$ 4,362,772
Capital assets (net of accumulated depreciation)	<u>1,705,190</u>	<u>1,763,024</u>
Total assets	<u>\$ 5,911,942</u>	<u>\$ 6,125,796</u>
<b>Liabilities</b>		
Current liabilities	\$ 342,686	277,060
Long-term liabilities	<u>23,631</u>	<u>10,448</u>
Total liabilities	<u>\$ 366,317</u>	<u>\$ 287,508</u>
<b>Net Assets</b>		
Invested in capital assets	1,705,190	1,763,024
Unrestricted	<u>3,840,435</u>	<u>4,075,264</u>
Total net assets	<u>\$ 5,545,625</u>	<u>\$ 5,838,288</u>

**Analysis of Financial Position:**

During fiscal year ended June 30, 2005, the School's net assets increased by \$292,663. A few of the significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The School's revenues from General Fund operations exceeded expenditures by \$16,679 for the fiscal year ended June 30, 2005.

**2. Depreciation Expense**

GASB 34 requires Schools to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2005, the net increase in accumulated depreciation was \$127,721.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

**3. Capital Assets**

The School's net investment in capital assets increased by \$57,834 during the fiscal year. This is summarized as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Adjustments /Deletions</u>	<u>Balance 06/30/05</u>
Capital assets	\$ 2,149,826	\$ 202,273	\$ (16,718)	\$ 2,335,381
Less: accumulated depreciation	<u>(444,636)</u>	<u>(130,398)</u>	<u>2,677</u>	<u>(572,357)</u>
Net investment capital outlay	<u>\$ 1,705,190</u>	<u>\$ 71,875</u>	<u>\$ (14,041)</u>	<u>\$ 1,763,024</u>

**4. Results of Operations:**

For the fiscal year ended June 30, 2005, the School wide results of operations were:

	<u>2004</u>	<u>2005</u>
<b>General Revenue:</b>		
State of Michigan Aid – All Sources	\$ 1,747,918	\$ 2,140,866
BIA Grants	2,814,567	2,843,031
Investment Earnings	29,195	70,242
Other	<u>-</u>	<u>11,792</u>
Total General Revenue	<u>4,591,680</u>	<u>5,065,931</u>
<b>Program Revenue:</b>		
Charges for Services – Local	26,343	31,681
Operating Grants – Federal and State	<u>1,002,379</u>	<u>383,544</u>
Total Program Revenue	<u>1,028,722</u>	<u>415,225</u>
Total Revenues	<u>5,620,402</u>	<u>5,481,156</u>
<b>Expenses:</b>		
Instruction and Instructional Services	\$ 2,323,551	\$ 2,523,646
Support Services	1,908,209	2,312,270
Food Service	163,754	172,829
Athletics	-	1,850
Depreciation (Unallocated)	118,026	130,398
Other	<u>110,753</u>	<u>47,500</u>
Total Expenses	<u>\$ 4,624,293</u>	<u>\$ 5,188,493</u>
Increase in Net Assets	<u>\$ 996,109</u>	<u>\$ 292,663</u>

**1. State of Michigan Aid, Unrestricted**

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count

**Per Student, Foundation Allowance:**

Annually, the State of Michigan sets the per student foundation allowance. The Joseph K. Lumsden Bahweting Public School foundation allowance was \$6,700 per student for the 2004 – 2005 school year. This is the same as 2003-2004 school year.

**Student Enrollment:**

The School's student enrollment for the fall count of 2004 - 2005 was 318 students. The School's enrollments have gradually increased in the past five years. The following summarizes fall student enrollments in the past five years:

	<u>Enrollment</u>	<u>Change from Prior Year</u>
2004 – 2005	318	18.20%
2003 – 2004	269	26.29%
2002 – 2003	213	7.57%
2001 – 2002	198	9.39%
2000 – 2001	181	0.54%

Subsequent to year-end June 30, 2005, preliminary student enrollments for 2005 - 2006 indicate that enrollments will increase from 2004 - 2005.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES****General Fund Revenue Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Variance Over (Under)</u>
2000 – 2001	3,852,718	3,642,537	(210,181)
2001 – 2002	3,943,953	3,983,268	39,315
2002 – 2003	3,817,360	3,804,989	(12,371)
2003 – 2004	5,091,201	4,858,907	(232,294)
2004 – 2005	5,831,605	5,495,338	(336,267)

**General Fund Expenditures Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Variance (Over) Under</u>
2000 – 2001	3,627,718	3,443,623	184,095
2001 – 2002	3,443,953	3,168,754	275,199
2002 – 2003	3,778,031	3,547,594	230,437
2003 – 2004	4,984,910	4,847,715	137,195
2004 – 2005	5,342,854	5,019,385	323,469

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

For the fiscal year 2004 - 2005, the budget was amended in June 2005. The June 2005 budget amendment was the final budget for the fiscal year. The Joseph K. Lumsden Bahweting Public School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does not budget for capital outlays in the original budget.

**Change from Original to Final Budget:****General Fund Revenues:**

Total Revenues Original Budget	\$ 4,668,750
Total Revenues Final Budget	<u>5,831,605</u>
Increase in Budgeted Revenues	<u>\$ 1,162,855</u>

The School's final general fund revenues differed from final budget by \$(336,267) a variance of 6%.

The Final Revenue Budget reflects the following changes from the original budget:

- Actual, fall student enrollment was higher than projected in the Original Budget.
- One-time grant revenues were not included in the Original Budget.

**General Fund Expenditures:**

The School's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 4,375,845
Total Expenditures Final Budget	<u>5,363,354</u>
Increase in Budgeted Expenditures	<u>\$ 987,509</u>

The School's actual excess expenditures were less than final budget by \$323,469.

**General Fund Expenditures: (Continued)**

Some of the significant budget adjustments for the year include:

- Health (NGS), Long-Term Disability and Life Insurance premiums all increased by 15%.
- MPSERS retirement contribution increased from 12.99% to 14.87%.
- Furnished two new classrooms (Jr. Kindergarten and Fifth Grade).
- Purchased two new school buses to replace two older buses.
- Contract settlements.

**2005 – 2006 Budget**

The Preliminary Budget for the 2005-06 Fiscal Year was adopted by the Board of Education on June 20, 2005. Several important factors were known as the budget was drafted, Listed below are several factors utilized to build the 05-06 budget.

- MPSERS employer contribution increasing from 14.87% to 16.37% effective October 1, 2005.
- Additional salaries and benefits were added for additional staffing requirements.
- Health (NGS) insurance rates increased by 10%.

**Contacting the School's Financial Management:**

This financial report is designed to provide our citizens and taxpayers with a general overview of the School's finances. If you have questions about this report or need additional information, contact the Administration Office, Joseph K. Lumsden Bahweting Public School.

## **Basic Financial Statements**

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# Joseph K. Lumsden Bahweting Public School

## Statement of Net Assets June 30, 2005

	Governmental Activities
<b>ASSETS:</b>	
Cash and investments	\$ 3,704,447
Due from other governmental units	418,761
Accounts receivable	4,797
Inventory	2,619
Prepaid expenses	231,148
Other assets	1,000
Capital assets (net of accumulated depreciation)	1,763,024
Total assets	<u>\$ 6,125,796</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	\$ 50,062
Accrued salaries and withholding	224,433
Deferred revenue	2,565
Noncurrent Liabilities:	
Compensated absences payable	10,448
Total liabilities	<u>287,508</u>
<b>NET ASSETS:</b>	
Invested in capital assets	1,763,024
Unrestricted	4,075,264
Total net assets	<u>\$ 5,838,288</u>

**Joseph K. Lumsden Bahweting Public School****Statement of Activities  
Year Ended June 30, 2005**

	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
Governmental Activities:				
Instruction and Instructional Services	\$ 2,523,646	\$ -	\$ 304,293	\$ (2,219,353)
Support services	2,312,270	-	-	(2,312,270)
Food services	172,829	31,681	79,251	(61,897)
Athletics	1,850	-	-	(1,850)
Other	47,500	-	-	(47,500)
Depreciation (Unallocated)	130,398	-	-	(130,398)
Total Governmental Activities	<u>\$ 5,188,493</u>	<u>\$ 31,681</u>	<u>\$ 383,544</u>	\$ (4,773,268)
General Revenues:				
State of Michigan aid, unrestricted				2,140,866
Interest and investment earnings				70,242
BIA Grant				2,843,031
Other General				11,792
Total general revenues				<u>5,065,931</u>
<b>Change in Net Assets</b>				292,663
Net assets:				
Beginning of year				<u>5,545,625</u>
End of year				<u>\$ 5,838,288</u>

# Joseph K. Lumsden Bahweting Public School

## Balance Sheet Governmental funds June 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments	\$ 3,139,364	\$ 485,381	\$ 79,702	\$ 3,704,447
Due from other governmental units	418,761	-	-	418,761
Inventories	-	-	2,619	2,619
Accounts Receivables	1,865	-	2,932	4,797
Prepaid expenses	231,148	-	-	231,148
Other Assets	1,000	-	-	1,000
Total Assets	<u>\$ 3,792,138</u>	<u>\$ 485,381</u>	<u>\$ 85,253</u>	<u>\$ 4,362,772</u>
<b>LIABILITIES:</b>				
Accounts payable	50,062	-	-	50,062
Accrued salaries and withholdings	224,433	-	-	224,433
Deferred revenue	559,000	-	2,648	561,648
Total liabilities	<u>833,495</u>	<u>-</u>	<u>2,648</u>	<u>836,143</u>
<b>FUND BALANCES:</b>				
Unreserved:				
Undesignated	2,958,643	-	-	2,958,643
Designated, athletics	-	-	10,150	10,150
Designated, capital projects	-	485,381	-	485,381
Designated, food services	-	-	72,455	72,455
Total fund balances	<u>2,958,643</u>	<u>485,381</u>	<u>82,605</u>	<u>3,526,629</u>
Total liabilities and fund balances	<u>\$ 3,792,138</u>	<u>\$ 485,381</u>	<u>\$ 85,253</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 2,335,381	
Accumulated depreciation is	<u>(572,357)</u>	1,763,024
Deferred revenue recognized as current revenue		559,083
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences		<u>(10,448)</u>
Net assets of governmental activities		<u>\$ 5,838,288</u>

# Joseph K. Lumsden Bahweting Public School

## Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Totals
<b>REVENUES:</b>				
Charges for Services	\$ -	\$ -	\$ 31,681	\$ 31,681
Federal sources	3,085,058	17,946	70,427	3,173,431
State sources	2,246,181	-	8,824	2,255,005
Local sources	152,360	-	-	152,360
Other Revenue	11,739	-	53	11,792
<b>TOTAL REVENUES</b>	<b>5,495,338</b>	<b>17,946</b>	<b>110,985</b>	<b>5,624,269</b>
<b>EXPENDITURES:</b>				
Instructional Services:				
Elementary	1,006,685	-	-	1,006,685
Middle School	443,307	-	-	443,307
Summer School	5,169	-	-	5,169
Special Education	247,324	-	-	247,324
Gifted & Talented	105,860	-	-	105,860
Academic Services	228,531	-	-	228,531
21st Century	75,548	-	-	75,548
Class Size Reduction	167,536	-	-	167,536
NMU Professional Development	10,000	-	-	10,000
Title I	23,114	-	-	23,114
Title II	6,507	-	-	6,507
Title V	1,288	-	-	1,288
Title VII	42,141	-	-	42,141
Safe and Drug Free	2,744	-	-	2,744
Freedom to Learn	63,440	-	-	63,440
Culture and Language	94,452	-	-	94,452
Support Services:				
Guidance	60,660	-	-	60,660
Health Services	24,152	-	-	24,152
Library	20,040	-	-	20,040
Board of Education	210,334	-	-	210,334
Executive Administration	800,995	-	-	800,995
Office of the Principal	159,827	-	-	159,827
Fiscal Services	425,431	-	-	425,431
Operations & Maintenance	521,528	-	-	521,528
Pupil Transportation	272,772	-	-	272,772
Food Service	-	-	172,829	172,829
Athletic Activities	-	-	1,850	1,850
Capital Outlay	-	17,946	-	17,946
<b>TOTAL EXPENDITURES</b>	<b>5,019,385</b>	<b>17,946</b>	<b>174,679</b>	<b>5,212,010</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>475,953</b>	<b>-</b>	<b>(63,694)</b>	<b>412,259</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
BIA Headstart Pass Thru	(47,500)	-	-	(47,500)
Operating transfers in	101,872	407,883	105,763	615,518
Operating transfers out	(513,646)	(101,872)	-	(615,518)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>16,679</b>	<b>306,011</b>	<b>42,069</b>	<b>364,759</b>
<b>FUND BALANCES, JULY 1</b>	<b>2,941,964</b>	<b>179,370</b>	<b>40,536</b>	<b>3,161,870</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 2,958,643</b>	<b>\$ 485,381</b>	<b>\$ 82,605</b>	<b>\$ 3,526,629</b>

See accompanying notes to financial statements.

# Joseph K. Lumsden Bahweting Public School

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2005

Net Changes in fund balances - total governmental funds	\$ 364,759
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$130,398) and loss on disposal of assets (\$14,041) exceeded capital outlay \$202,273 in the current period.

57,834

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the following net changes:

Compensated absences	13,183
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Grant revenue is not considered "available governmental funds" but is considered earned and recognized as revenue.

(143,113)

Changes in net assets of governmental activities

\$ 292,663

# Joseph K. Lumsden Bahweting Public School

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## Statement of Fiduciary Net Assets Agency Fund For the Year Ended June 30, 2005

### ASSETS:

Cash and equivalents	\$ 1,965
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### LIABILITIES:

Due to School Organizations	\$ 1,965
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## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

Charter School - The Charter School was organized under Act 362 of the Michigan Public Acts of 1993. This Act allows for this School to be eligible for State Aid and must comply with the Michigan School Code provisions. The School operates under a grant agreement with the Board of Control - Northern Michigan University. The School was created to provide a learning experience which includes Ojibwa culture, values and traditions. The School's Agreement with Northern Michigan University will expire on June 30, 2006.

The accounting policies of Joseph K. Lumsden Bahweting Public School conform to U.S. generally accepted accounting principles as applicable to Schools. The following is a summary of the significant accounting policies:

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

**Basic Financial Statements – School-wide Statements**

The School's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis of all nonfiduciary activities, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.).

The School does not allocate indirect costs. In creating the school-wide financial statements, the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

**Basic Financial Statements – Fund Financial Statements**

The accounts of the School are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows.

**Governmental Funds** – Governmental Funds are those funds through which most School functions typically are financed. The acquisition, use, and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Capital Projects Funds – The Capital Project Funds are used to account for the acquisition or construction of major capital facilities.

Additionally, the School reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School maintains full control of these funds. The School Service Funds maintained are the School Lunch Fund and Athletic Program Fund.

Agency Fund – Agency Funds are used to account for assets held by the School for individuals or groups.

**Note 1 - Summary of Significant Accounting Policies (Continued)****Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the government-wide statement uses the economic resources measurement focus.

**Accrual**

Governmental activity in the school-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Cash and Investments – Cash equivalents consist of checking and petty cash and are stated at cost. All deposits are carried at cost. Investments are stated at cost, which approximates market value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets, which include land, buildings, furniture and equipment are reported in the governmental activities column in the school-wide financial statements. Capital assets are defined by the school as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Compensated Absences – The liability for compensated absences reported in the school-wide statements consist of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Budgets**

The School formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2005. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

**Note 3 - Deposits and Investments****Deposits**

At year-end, the School's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 194,382	\$ 1,965	\$ 196,347
Investments	<u>3,510,065</u>	<u>-</u>	<u>3,510,065</u>
Total	<u>\$ 3,704,447</u>	<u>\$ 1,965</u>	<u>\$ 3,706,412</u>

The School's deposits are deposited in two local financial institutions. Deposits are carried at cost.

**Note 3 - Deposits and Investments (Continued)**

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 196,247
Investments in U.S. Obligations	3,510,065
Cash on Hand	<u>100</u>
	<u>\$ 3,706,412</u>

The bank balance of the primary government's deposits is \$418,609, of which \$101,963 is covered by federal depository insurance.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

**Note 3 - Deposits and Investments (Continued)**

- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Schools deposits are in accordance with state statutes.

All deposits are in accordance with statutory authority.

As of June 30, 2005, the School had the following investments.

	<u>Maturities</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Bills	7/7/05	\$ 247,354	\$ 249,891
U.S. Treasury Bills	7/14/05	123,630	124,879
U.S. Treasury Bills	7/21/05	247,177	249,616
U.S. Treasury Bills	7/28/05	148,223	149,688
U.S. Treasury Bills	8/4/05	148,196	149,602
U.S. Treasury Bills	8/11/05	197,549	199,347
U.S. Treasury Bills	8/18/05	148,126	149,416
U.S. Treasury Bills	8/25/05	246,813	248,862
U.S. Treasury Bills	9/1/05	197,326	198,970
U.S. Treasury Bills	9/8/05	246,612	248,548
U.S. Treasury Bills	9/8/05	272,161	273,445
U.S. Treasury Bills	9/15/05	247,436	248,454
	<u>Maturities</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Bills	9/22/05	296,918	297,970
U.S. Treasury Bills	9/29/05	197,949	198,535
U.S. Treasury Bills	10/6/05	247,419	248,013
U.S. Treasury Bills	10/13/05	<u>297,176</u>	<u>297,378</u>
Total		<u>\$ 3,510,065</u>	<u>\$ 3,532,614</u>

**Investment and Deposit Risk**

*Interest Rate Risk.* Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

*Credit Risk.* The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

**Note 3 - Deposits and Investments (Continued)**

*Concentration of Credit Risk.* The Schools policy places no limits on the amount the School may invest. The School may invest 100% of available reserve in U.S. Treasury securities and those securities completely guaranteed by the Treasury. Investments in other types of authorized securities may be made at no more than 25% of total current investment portfolio consists of one type of security.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$316,646 of the School's bank balance of \$418,609 was exposed to credit risk because it was uninsured and uncollateralized.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	Balance July 1, 2004	Additions	Adjustments/ Deductions	Balance June 30, 2005
Capital Assets Not Depreciated:				
Land	\$ 25,122	\$ -	\$ -	\$ 25,122
Total Assets Not Depreciated	25,122	-	-	25,122
Capital Assets Depreciated:				
Land Improvements	106,667	-	-	106,667
Buildings	205,600	-	-	205,600
Building Improvements	823,782	18,501	-	842,283
Furniture, Fixtures, & Equipment	127,606	45,337	(16,718)	156,225
Buses	258,529	123,255	-	381,784
Leasehold Improvements	602,520	15,180	-	617,700
Total Assets Depreciated	2,124,704	202,273	(16,718)	2,310,259
Less Accumulated Depreciation for:				
Land Improvements	(19,617)	(5,597)	(207)	(25,421)
Buildings	(65,963)	(10,280)	-	(76,243)
Building Improvements	(83,813)	(39,000)	-	(122,813)
Furniture, Fixtures, & Equipment	(40,332)	(15,366)	7,253	(48,445)
Buses	(141,708)	(27,999)	-	(169,707)
Leasehold Improvements	(93,203)	(32,156)	(4,369)	(129,728)
Subtotal	(444,636)	(130,398)	2,677	(572,357)
Net Capital Assets Depreciated	1,680,068	71,875	(14,041)	1,737,902
Total Net Capital Assets	\$ 1,705,190	\$ 71,875	\$ (14,041)	\$ 1,763,024

Depreciation for the fiscal year ended June 30, 2005 amounted to \$130,398. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Note 5 - Risk Management**

The School is exposed to risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation) as well as medical benefits provided to employees. The School has purchased commercial insurance for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 6 - Commitments and Contingencies**Grants

The School has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2005.

**Note 7 - Due From Other Governmental Units**

Amounts due from other governmental units consist of \$418,761 in revenues due from state and federal sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2005 state aid, which was not received until after year-end due to a change in the state aid payment schedule.

**Note 8 - Employee Retirement System – Defined Benefit Plan**

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.



**Note 8 - Employee Retirement System – Defined Benefit Plan (Continued)**

The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through September 30, 2005. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2005, 2004, and 2003 were \$227,623, \$232,791, and \$193,982 respectively.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**Note 9 - Long-Term Liabilities**

The School's employment policy provides for School staff who are classified as regular, full or part time, have completed required probationary periods, and work year around (Administrative, Administrative Support, Library, Clerical, Maintenance) accrue vacation according to the following:

1. Salaried employees earn fifteen (15) days for the first year of employment and one additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Hourly employees earn ten (10) days for the first year of employment and one additional day per year of service thereafter.

A summary of accrued compensated absences at June 30, 2005 is as follows:

Vacation	\$	10,448
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**Note 10 - Interfund Transfers**

TRANSFERS IN	TRANSFERS OUT		
	General Fund	Capital Projects	Total
General Fund	\$ -	\$ 101,872	\$ 101,872
Capital Projects	407,883	-	407,883
Nonmajor Governmental	105,763	-	105,763
Total	<u>\$ 513,646</u>	<u>\$ 101,872</u>	<u>\$ 615,518</u>

**Note 10 - Interfund Transfers (Continued)**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 11- Operating Leases**

The Charter School executed a cancelable 5-year operating lease, ending April 2006, refundable if cancelled, with the Sault Ste. Marie Tribe of Chippewa Indians, which was prepaid at year-end in the amount of \$231,148.

## **Required Supplemental Information**

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# Joseph K. Lumsden Bahweting Public School

## Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budgetary Basis)	(Under)
<b>Revenues:</b>				
Federal Sources	\$ 2,586,609	\$ 3,434,550	\$ 3,085,058	\$ (349,492)
State Sources	2,042,141	2,244,343	2,246,181	1,838
Local Sources	40,000	140,973	152,360	11,387
Other Revenue	-	11,739	11,739	-
Total Revenues	4,668,750	5,831,605	5,495,338	(336,267)
<b>Expenditures:</b>				
Instructional Services	2,631,198	2,683,339	2,523,646	159,693
Support Services	1,744,647	2,659,515	2,495,739	163,776
Total Expenditures	4,375,845	5,342,854	5,019,385	323,469
<b>Excess of Revenues (Expenditures)</b>	292,905	488,751	475,953	(12,798)
<b>Other Financing Sources (Uses)</b>				
BIA/Headstart Pass Thru	-	(47,400)	(47,500)	(100)
Operating Transfers In	-	101,872	101,872	-
Operating Transfers Out	(105,763)	(513,646)	(513,646)	-
Total Other Financing Sources (Uses)	(105,763)	(459,174)	(459,274)	(100)
<b>Net Changes in Fund Balances</b>	\$ 187,142	\$ 29,577	16,679	\$ (12,898)
<b>Fund Balance – Beginning of year</b>			2,941,964	
<b>Fund Balance – End of Year</b>			\$ 2,958,643	

## **Other Supplemental Information**

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# Joseph K. Lumsden Bahweting Public School

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Special Revenue Funds		
	Athletic	Food Service	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 10,150	\$ 69,552	\$ 79,702
Accounts receivable	-	2,932	2,932
Inventory	-	2,619	2,619
<b>TOTAL ASSETS</b>	<b>10,150</b>	<b>75,103</b>	<b>85,253</b>
<b>LIABILITIES:</b>			
Deferred revenue	\$ -	\$ 2,648	\$ 2,648
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>2,648</b>	<b>2,648</b>
<b>FUND EQUITY:</b>			
Fund Balance:			
Designated	10,150	72,455	82,605
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 10,150</b>	<b>\$ 75,103</b>	<b>\$ 85,253</b>

# Joseph K. Lumsden Bahweting Public School

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	Special Revenue Funds		
	Athletic	Food Service	Total
<b>REVENUES:</b>			
Charges for Services	\$ -	\$ 31,681	\$ 31,681
Federal Sources	-	70,427	70,427
State Sources	-	8,824	8,824
Other Revenue	-	53	53
<b>TOTAL REVENUES</b>	<b>-</b>	<b>110,985</b>	<b>110,985</b>
<b>EXPENDITURES</b>			
Athletic Activities	1,850	-	1,850
Food Services	-	172,829	172,829
<b>TOTAL EXPENDITURES</b>	<b>1,850</b>	<b>172,829</b>	<b>174,679</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,850)</b>	<b>(61,844)</b>	<b>(63,694)</b>
<b>OTHER FINANCING SOURCES:</b>			
Operating Transfers In	12,000	93,763	105,763
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	<b>10,150</b>	<b>31,919</b>	<b>42,069</b>
<b>FUND BALANCES, JULY 1</b>	<b>-</b>	<b>40,536</b>	<b>40,536</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 10,150</b>	<b>\$ 72,455</b>	<b>\$ 82,605</b>

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Members of the  
Administration and Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan 49783

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2005, which collectively comprise Joseph K. Lumsden Bahweting Public School's financial statements and have issued our report thereon dated August 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Joseph K. Lumsden Bahweting Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Joseph K. Lumsden Bahweting Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 3, 2005



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the  
Administration and Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan 49783

**Compliance**

We have audited the compliance of the Joseph K. Lumsden Bahweting Public School with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Joseph K. Lumsden Bahweting Public School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Joseph K. Lumsden Bahweting Public School management. Our responsibility is to express an opinion on the Joseph K. Lumsden Bahweting Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Joseph K. Lumsden Bahweting Public School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Joseph K. Lumsden Bahweting Public School's compliance with those requirements.

As described in items 05-1 and 05-2 in the accompanying schedule of findings and questioned costs, the Joseph K. Lumsden Bahweting Public School did not comply with requirements regarding allowable costs that are applicable to the Indian School Equalization Program. Compliance with such requirements is necessary, in our opinion, for the Joseph K. Lumsden Bahweting Public School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Joseph K. Lumsden Bahweting Public School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

The management of the Joseph K. Lumsden Bahweting Public School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Joseph K. Lumsden Bahweting Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Joseph K. Lumsden Bahweting Public School's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we consider items 05-2 to be a material weakness.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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**Certified Public Accountants**

August 3, 2005

# Joseph K. Lumsden Bahweting Public School

## Schedule of Expenditures of Federal Awards For the year ended June 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Approved Grant Amount	Receivable (Deferred Revenue) July 1, 2004	Prior Year Expenditures	Current Year Receipts	Current Year Revenue	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2005
<b>U.S. DEPARTMENT OF EDUCATION:</b>									
<i>Direct Awards:</i>									
Title VII - Indian Education	84.060	S060A021230	-	\$ -	\$ 40,425	\$ 42,135	\$ 42,135	\$ 42,135	\$ -
<i>Pass-through Eastern Upper Peninsula Intermediate School District:</i>									
Title VI-B Flowthrough	84.027	040450-0304	26,778	(21,000)	5,778	-	21,000	21,000	-
Title VI-B Flowthrough	84.027	050450-0405	39,270	-	-	39,270	39,270	39,270	-
21st Century Learning Grant	84.287	S287A012433	6,253	-	-	6,253	6,253	6,253	-
Safe and Drug Free Schools	84.186	0528260-0405	5,000	-	-	2,744	2,744	2,744	-
Freedom to Learn	84.318	034280-2	60,000	-	-	60,000	60,000	60,000	-
		044280-3							
		054280-2							
Total Pass-through EUPISD				(21,000)	5,778	108,267	129,267	129,267	-
<i>Pass-through Michigan Department of Education:</i>									
Educationally Deprived Children (Title I)	84.010	051530 0405	23,114	-	-	23,114	23,114	23,114	-
Title V - Innov Educ Program Strategies	84.298	050250 0405	1,288	-	-	1,288	1,288	1,288	-
Technology Literacy Challenge Grant	84.318	044290 0304	587	-	-	587	587	587	-
Title IIA - Improving Teacher Quality	84.367	040520 0304	5,920	-	-	5,920	5,920	5,920	-
Total Pass-through MDOE				-	-	30,909	30,909	30,909	-
Total U.S. Department of Education				(21,000)	46,203	181,311	202,311	202,311	-
<b>U.S. DEPARTMENT OF INTERIOR:</b>									
<i>Direct Awards (Bureau of Indian Affairs)</i>									
Indian School Equalization Program	15.042	GTF60X502A3	-	(582,405)	2,814,567	2,838,254	2,890,206	2,890,206	(530,453)
Total U.S. Department of Interior				(582,405)	2,814,567	2,838,254	2,890,206	2,890,206	(530,453)
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>									
<i>Pass-through Michigan Department of Education:</i>									
National School Lunch Program	10.555		57,428	2,412	2,412	57,428	55,016	55,016	-
National School Lunch - Breakfast	10.553		15,992	894	894	15,992	15,098	15,098	-
USDA Commodities-Entitlement	10.550		-	-	729	301	218	218	(83)
USDA Commodities-Bonus	10.550		-	-	163	95	95	95	-
Total Pass-through MDOE				3,306	4,198	73,816	70,427	70,427	(83)
Total U.S. Department of Agriculture				3,306	4,198	73,816	70,427	70,427	(83)
<b>Total Expenditures of Federal Awards</b>				<b>\$ (600,099)</b>	<b>\$ 2,864,968</b>	<b>\$ 3,093,381</b>	<b>\$ 3,162,944</b>	<b>\$ 3,162,944</b>	<b>\$ (530,536)</b>

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Joseph K. Lumsden Bahweting Public School, Sault Ste. Marie, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note B - Agency or Pass-Through Number**

The Agency or Pass-Through Number represents the facility's provider I.D. number. Some of these numbers were either not available or not provided by state or local administering agencies for the programs reported in the accompanying schedule.

**Note C - Cognizant Agency**

The School has not been assigned a Federal cognizant agency. Therefore, the School is under the general oversight of the United States Department of the Interior - Bureau of Indian Affairs which provided the greatest amount of direct awards to the School during 2005.

**Note D - Catalog of Federal Domestic Assistance (CFDA) Number**

The CFDA number represents the federal program identification number. The numbers were either obtained from the grant award, from correspondence from the federal agency or from the CFDA catalog.

**Note E - Subrecipient Grantee – Tribally Controlled School Grant**

The federal expenditures for the BIA Tribally Controlled School Grant includes a grant to the Sault Tribe Head Start Program. The pass-through grant amount totaled \$47,500 for 2005. The School Administrator is responsible for certain provisions of the grant.

**Note F - Food Distribution**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**Joseph K. Lumsden Bahweting Public School****Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2005****Note G - Federal Receipts Reconciliation**

Payments per Form R7120	\$ 111,009
State Fund Programs:	
School Breakfast	(6,680)
Pass thru Grants:	
Other	396
EUPISD	108,267
Direct Awards:	
US Department of Education	42,135
Tribally Controlled School Grant – BIA Pass-Through	<u>2,838,254</u>
	<u>\$ 3,093,381</u>

**Note H - Federal Revenues**

Total Federal Expenditures	\$ 3,162,944
Add: State Revenue Classified as Federal	<u>10,487</u>
Federal Revenues per Financial Statements	<u>\$ 3,173,431</u>

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified? No

• Reportable conditions identified that are not  
considered to be material weaknesses? No

Noncompliance material to financial statements  
noted? No

**Federal Awards**

Internal control over major programs:

• Material weaknesses identified? Yes

• Reportable conditions identified that are not  
considered to be material weaknesses? No

Type of auditor's report issued on compliance  
for major programs: Qualified

Any audit findings disclosed that are required  
to be reported in accordance with  
section 510(a) of Circular A-133? Yes

**Identification of Major Programs:****CFDA Numbers****Name of Federal Program**

15.042 Indian School Equalization Program

Dollar threshold used to distinguish  
between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? No



**Summary Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

***Reportable Conditions – Noncompliance with Federal Regulation***

**DEPARTMENT OF INTERIOR**

**05-1. Payroll Certification**

Program: Indian School Equalization Program; CFDA No. 15.042; U.S. Department of Interior Direct Award.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on the Indian School Equalization Program to be documented for co-funded and 100% funded staff.

Condition: The School does not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School could be incorrectly charging employee salaries to Federal Programs.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually. The certifications must be signed by the employee and supervisor for employees who work solely for one program.

Management’s Response – Corrective Action Plan: The School will complete the required semi-annual certifications by employee beginning in the 2005-2006 fiscal year.

**05-2. Program(s):** Indian School Equalization Grant; CFDA Number 15.042; U.S. Department of Interior; Direct Award.

Criteria: OMB Circular A-87 (g)(3) states “abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant agency.”

Condition: The School did not obtain approval from the cognizant agency prior to disbursement of an employee’s severance pay. Additionally, provisions of the severance agreement differed from the actual pay calculation for the payment of taxes.

**Summary Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005**

Section III - Federal Award Findings and Questioned Costs (Continued)

***Reportable Conditions – Noncompliance with Federal Regulation (Continued)***

**05-2.** *Effect:* Without the proper approval from the cognizant agency, it is undeterminable if the mass severance pay is allowable. Additionally, provisions of Section 18(1) of the State Aid Act may apply, which could result in unallowable costs.

*Cause:* Proper approval was not obtained before payment of the mass severance pay from the cognizant audit agency.

*Recommendation:* The School should obtain approval of all severance packages from the cognizant agency prior to disbursement.

**NONE**



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**REPORT TO MANAGEMENT**

To the Members of the  
Administration and Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan 49783

We have audited the basic financial statements of the Joseph K. Lumsden Bahweting Public School for the year ended June 30, 2005 and have issued our report thereon dated August 3, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Joseph K. Lumsden Bahweting Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Joseph K. Lumsden Bahweting Public School financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Joseph K. Lumsden Bahweting Public School compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major Federal programs for the purpose of expressing an opinion on the Joseph K. Lumsden Bahweting Public School compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Joseph K. Lumsden Bahweting Public School compliance with those requirements.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Joseph K. Lumsden Bahweting Public School are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2005. We noted no transactions entered into by the Joseph K. Lumsden Bahweting Public School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Joseph K. Lumsden Bahweting Public School that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Joseph K. Lumsden Bahweting Public School's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Joseph K. Lumsden Bahweting Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

### **Comments and Recommendations**

#### **Prior year:**

Board Minutes – It was noted during a review of the Board minutes that the minutes do not correctly reflect the approval of the prior minutes. It is recommended the Board minutes properly reflect the proper minutes approval.

Status: Corrected.

Payroll – It was noted during a review of payroll that one employee's salary is charged to the incorrect account.

Status: Corrected.

**Current year:**

Board Minutes – During our review of Board Minutes, it was noted that not all approved board minutes were signed. We recommend Board Minutes be signed, by the Board President and Secretary, at the time of approval.

Status: This will be corrected next year.

**Investments:**

The School has not implemented GASB Statement #31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. GASB #31 states that governmental entities should report investments at fair value in the balance sheet (or other statement of financial position); the School is presently reporting investments at cost. By reporting investments at cost, the School is understating its assets by \$22,549. The School is also required to amortize any premium or discount relating to investments, which is currently not performed.

**Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of the Board of Education, management, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 3, 2005